

2018-2023 Baseline

Presentation to the Customer Review Panel
January 31, 2017



Purpose of this Presentation

Provide a detailed look into the baseline rate path for 2018-2023

1. Reminder of the rate path options and main components: baseline; savings; action plans
2. Reminder of Baseline break out
3. O&M increments
4. CIP overview and increments

2018-2023 Rate Path Options and Rate Math

Starting Point (September 2016)	6.8%
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- *Scrubbed base & assumptions*
- *Prioritized & removed investments*
- *Expenditure reductions of \$171M*

Current baseline operations	5.2%
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Plus action plan investments	0.7%
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Minus additional savings	(0.3%)
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Option A: Average Annual Rate Increase	5.6%
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Option B: Medium Risk	5.4%
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Option C: Higher Risk	5.3%
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Baseline Rates Overview

Baseline Definition:

- Baseline rates are the future cost of “*business as usual*.”

Why we calculate a baseline:

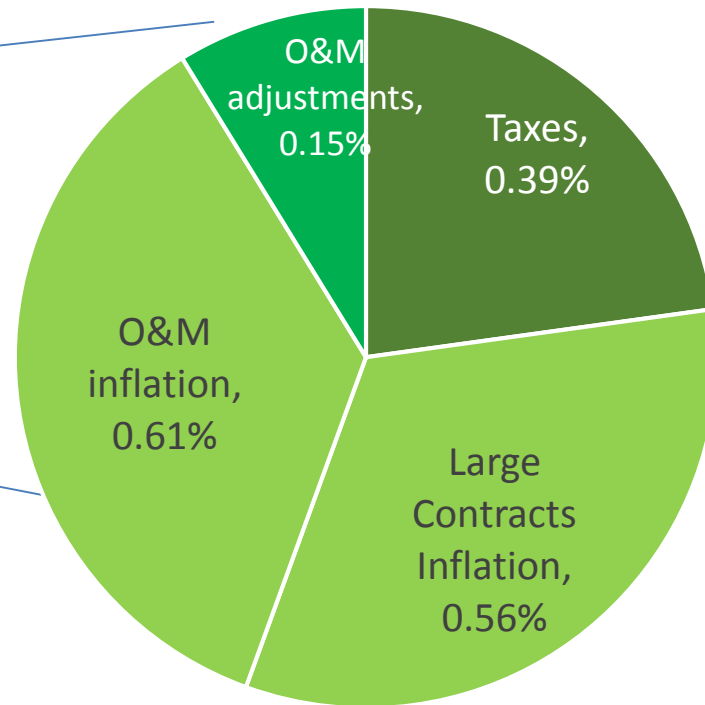
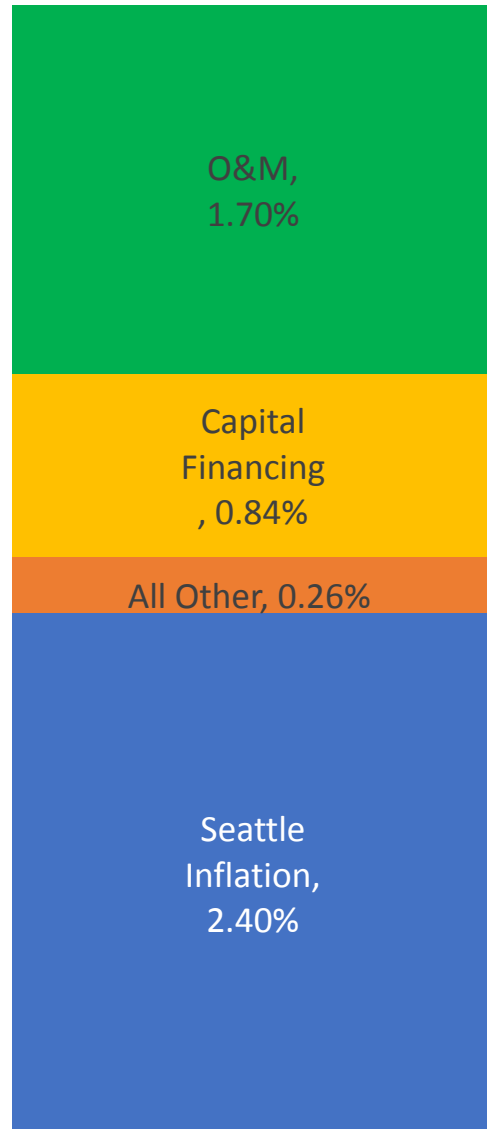
- The baseline is our *starting point* for rate discussions.

Why are baseline rates higher than inflation?

- See the next slide for *components of the baseline rate*

Baseline Rates Overview

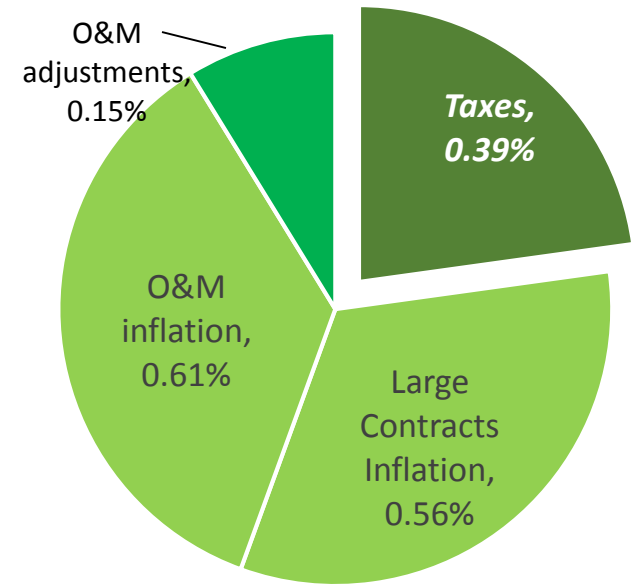
Baseline = 5.2%



Components of the 1.70% increase in operations above general inflation

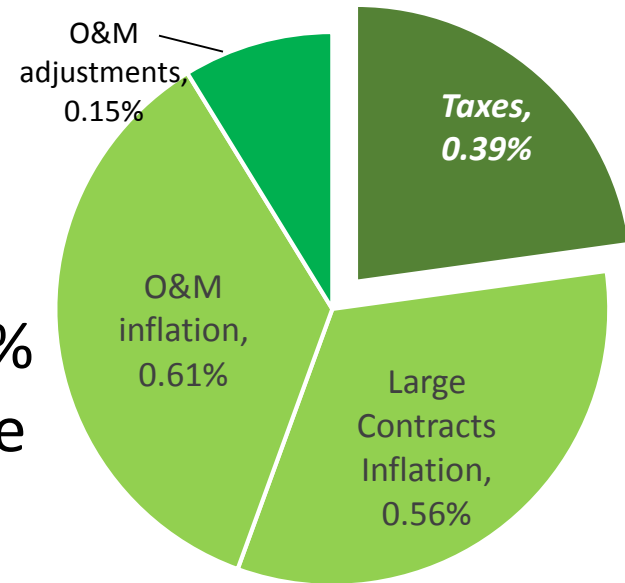
Detail for the O&M Baseline Component: *Focus on Taxes (0.39%)*

- Why is tax impact higher than Seattle inflation?
 - SPU baseline rates = 5.2% average annual increase
 - City and State tax **payments** are levied on SPU revenues, and so will increase roughly 5.2%
 - SPU's City and State tax **rates** are fixed during the 2018-2023 rate period



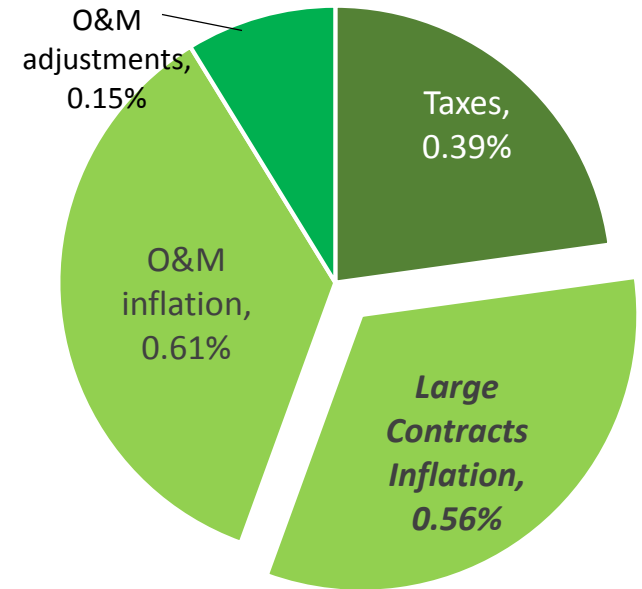
Detail for the O&M Baseline Component: *Focus on Taxes (0.39%) continued*

- What are the impacts of the 2016 Solid Waste tax **rate** increase?
 - Tax rate increase from 11.5% to 14.2% included in the 2017-2019 solid waste rate study
 - Impacts the % increase in solid waste rates in 2017 by 2.5%



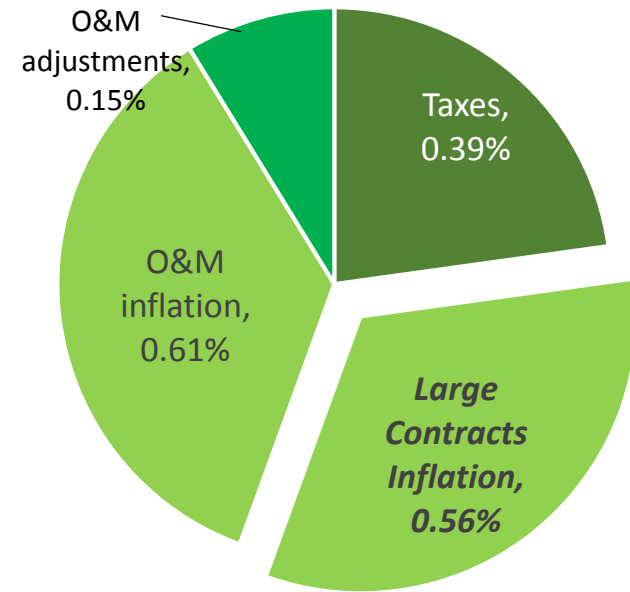
Detail for the O&M Baseline Component: *Focus on Contracts (0.56%)*

- Two sets of large contracts:
 - Treatment of wastewater and stormwater
 - Solid waste contractors for pick up, hauling, and disposal of garbage, organics, and recyclables



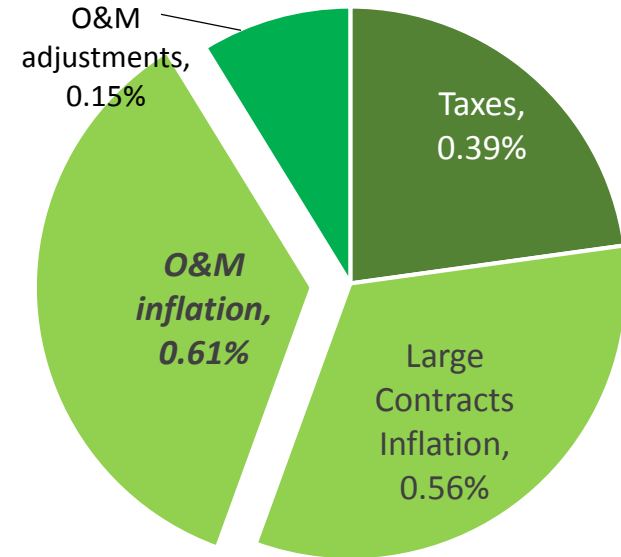
Detail for the O&M Baseline Component: *Focus on Contracts (0.56%) continued*

- King County treatment rates expected to go up 3% per year on average
 - 2017 payment to King County = \$158M; 2023 payment = \$203M
- Solid Waste contractor rates expected to increase 2.75% per year from 2018-2023
 - 2017 payment to contractors = \$107M; 2023 payment = \$133M



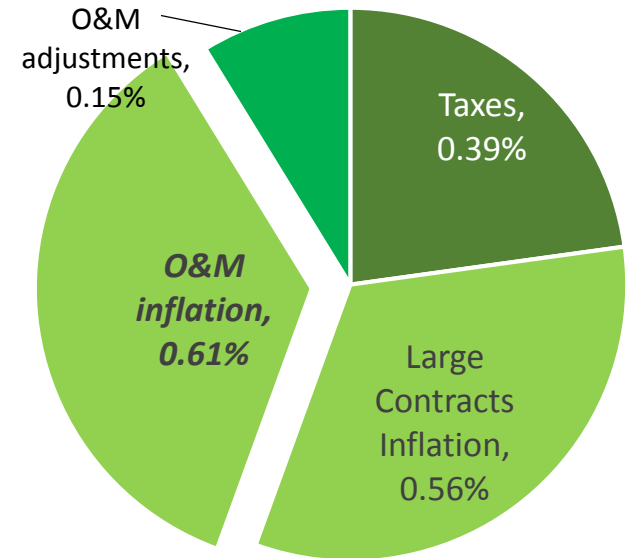
Detail for the O&M Baseline Component: *Focus on O&M inflation (0.61%)*

- Why is there an O&M inflation component over and above the general Seattle inflation rate?
 - Some cost categories are inflated at rates higher than the general rate of inflation based on historical experience and future projections

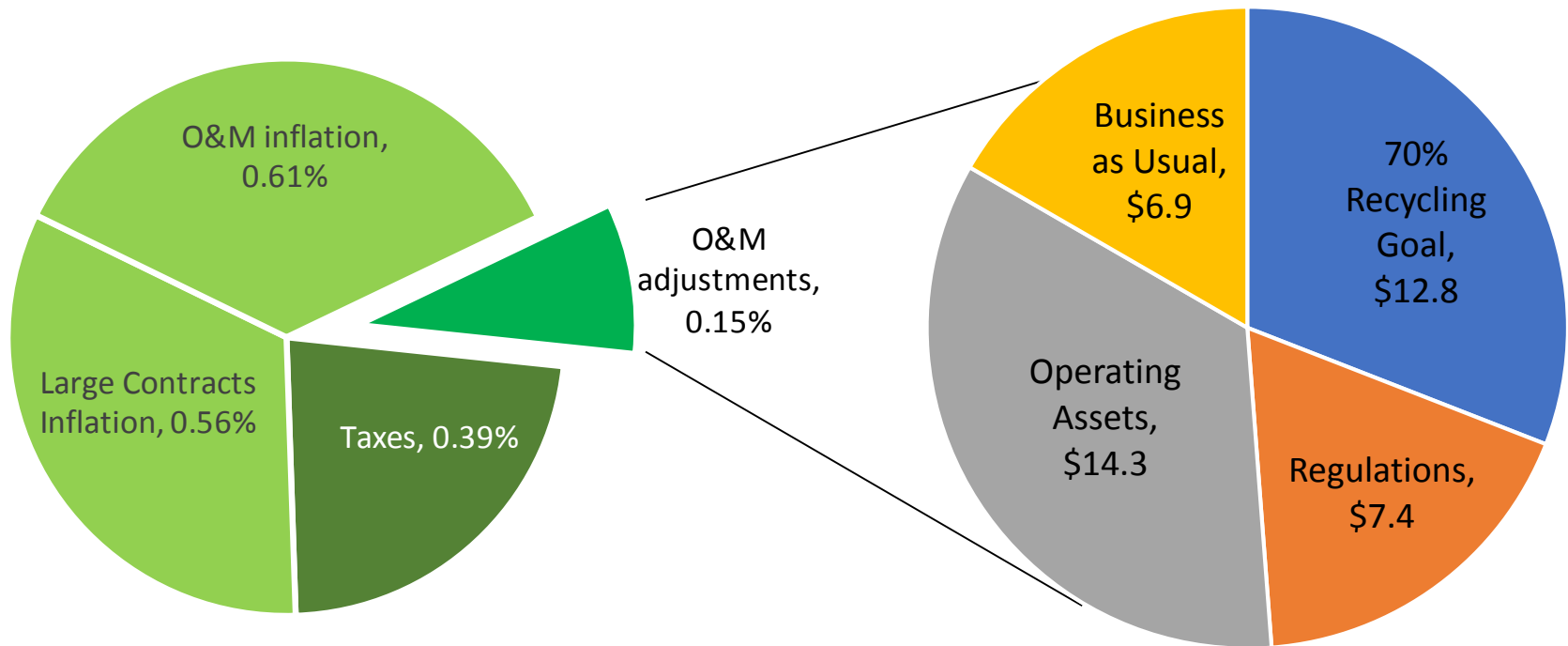


Detail for the O&M Baseline Component: *Focus on O&M inflation (0.61%) continued*

- Generally, which factors are higher than 2.4%:
 - Professional services inflated at 3%/year
 - Health care inflated at 6.4% in 2018; 6.0%/year thereafter
 - General cost allocation from other City departments inflated at 6.0%/year



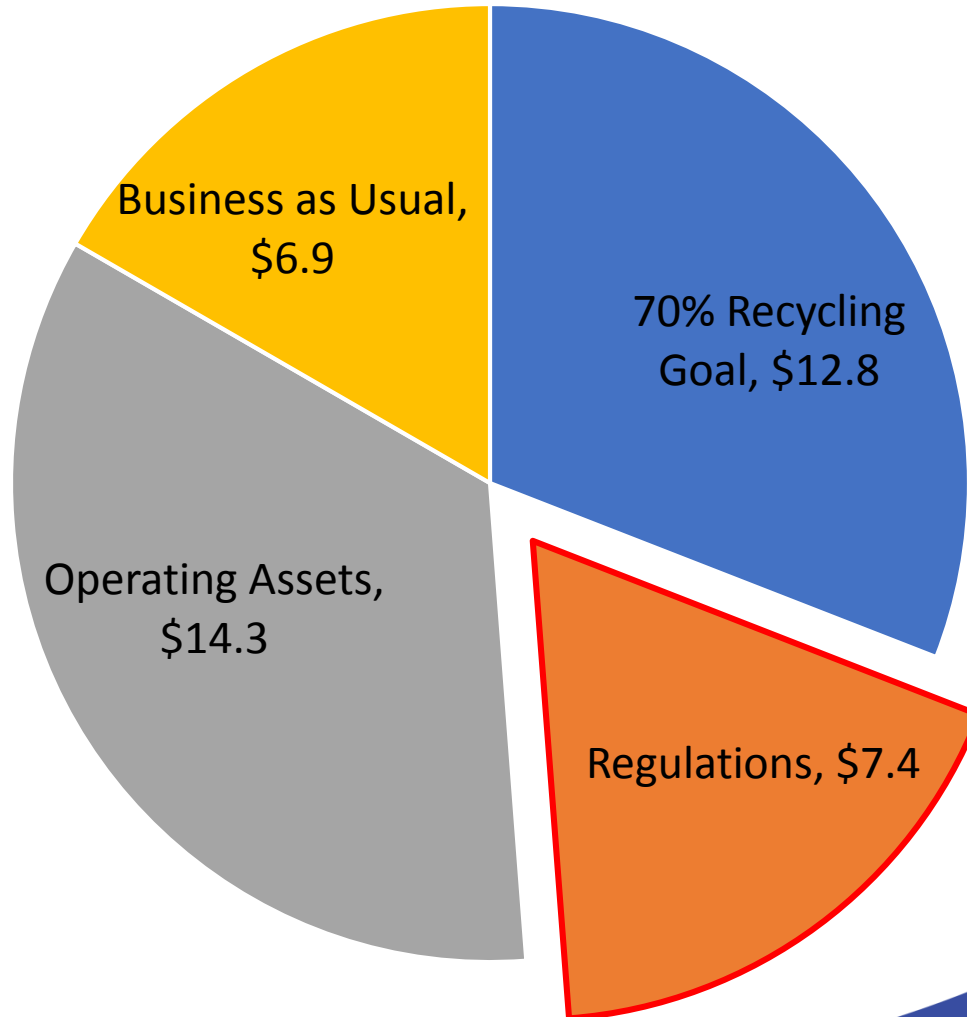
Detail for the O&M Baseline Component: Focus on O&M adjustments (0.15%)



O&M Adjustments: Focus on Regulations

2018-2023 O&M Baseline Adjustments 6-years = \$41.4M

\$s in millions



O&M Adjustments Details : \$7.4M Regulations

- \$2.7M Source control in the Duwamish including monitoring and line cleaning
- \$1.0M Wastewater sampling for outfalls
- \$0.8M DWW permitting position



O&M Adjustments Details : \$7.4M Regulations continued

- \$0.7M Stormwater code permit
- \$0.3M Utility locate 3 positions conversions and non-labor
- (\$1.4M) Sewer cleaning



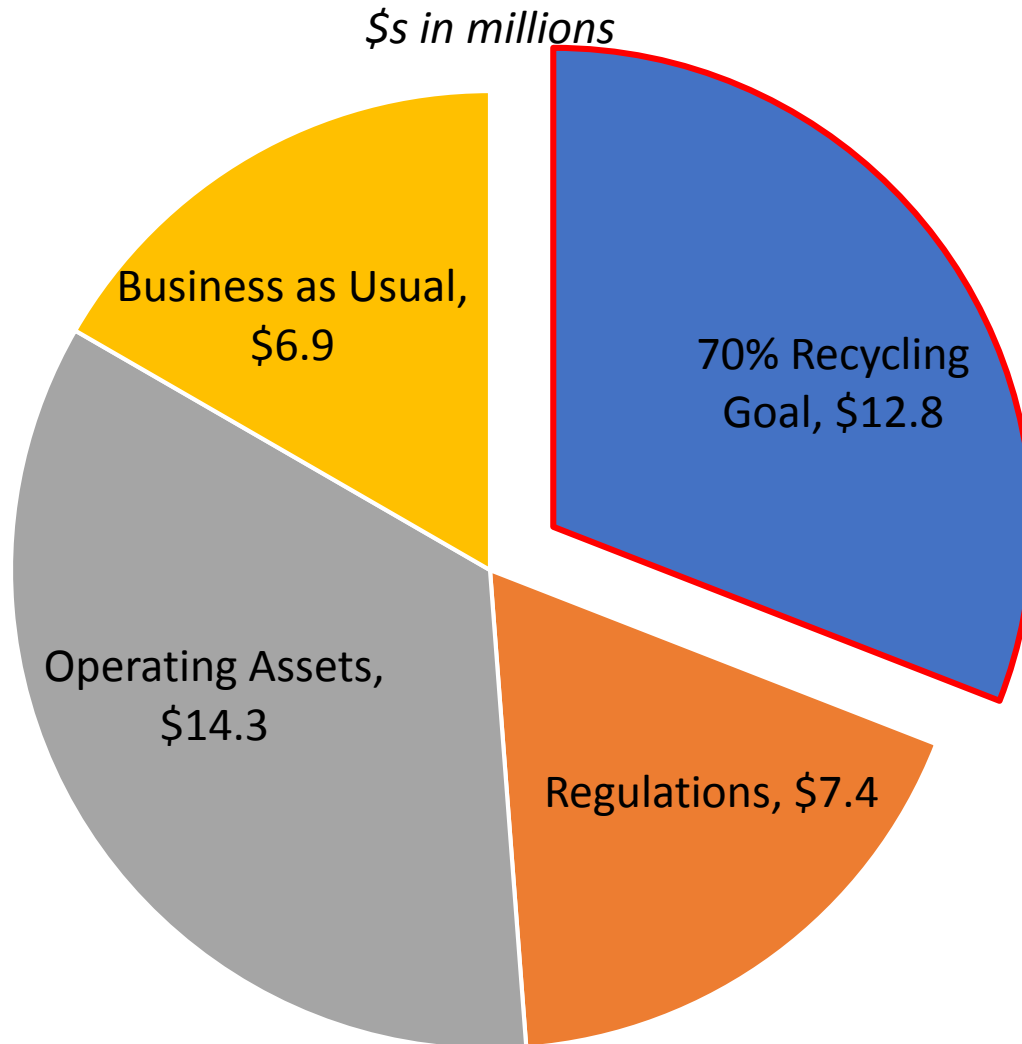
O&M Adjustments Details : \$7.4M Regulations continued

- \$1.5M Landfill operation consultant and transfer station monitoring
- \$0.8M ADA and energy efficiency compliance
- \$0.6M South Fork Tolt Relicensing
- \$0.4M Water quality sampling



O&M Adjustments: Focus on 70% Recycling Goal

2018-2023 O&M Baseline Adjustments = \$41.4M



O&M Adjustments Details : \$12.8M Recycling Goal

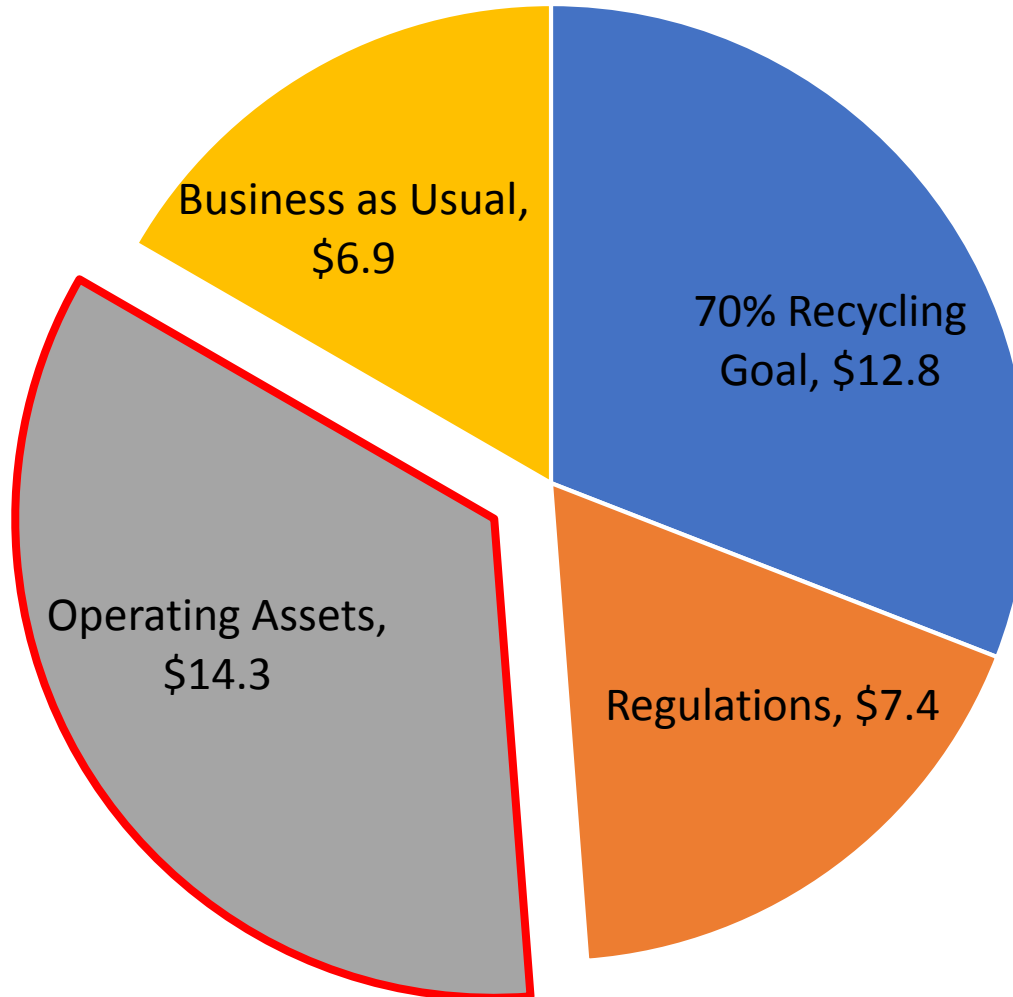
- \$7.8M Diaper & Pet Waste Composting Program
- \$4.0M Construction & Demolition Sorting Pilot
- \$1.0M Waste Prevention Programs



O&M Adjustments: Focus on Operating Assets

2018-2023 O&M Baseline Adjustments = \$41.4M

\$s in millions



O&M Adjustments Details : \$14.3M O&M Operating Assets

- \$2.5M Green Stormwater Infrastructure
- \$2.2M 4 DWW positions for system control and management
- \$1.8M 2 positions for new the dewatering facility
- \$1.7M 2 DWW positions for grounds maintenance
- \$1.3M Pond maintenance



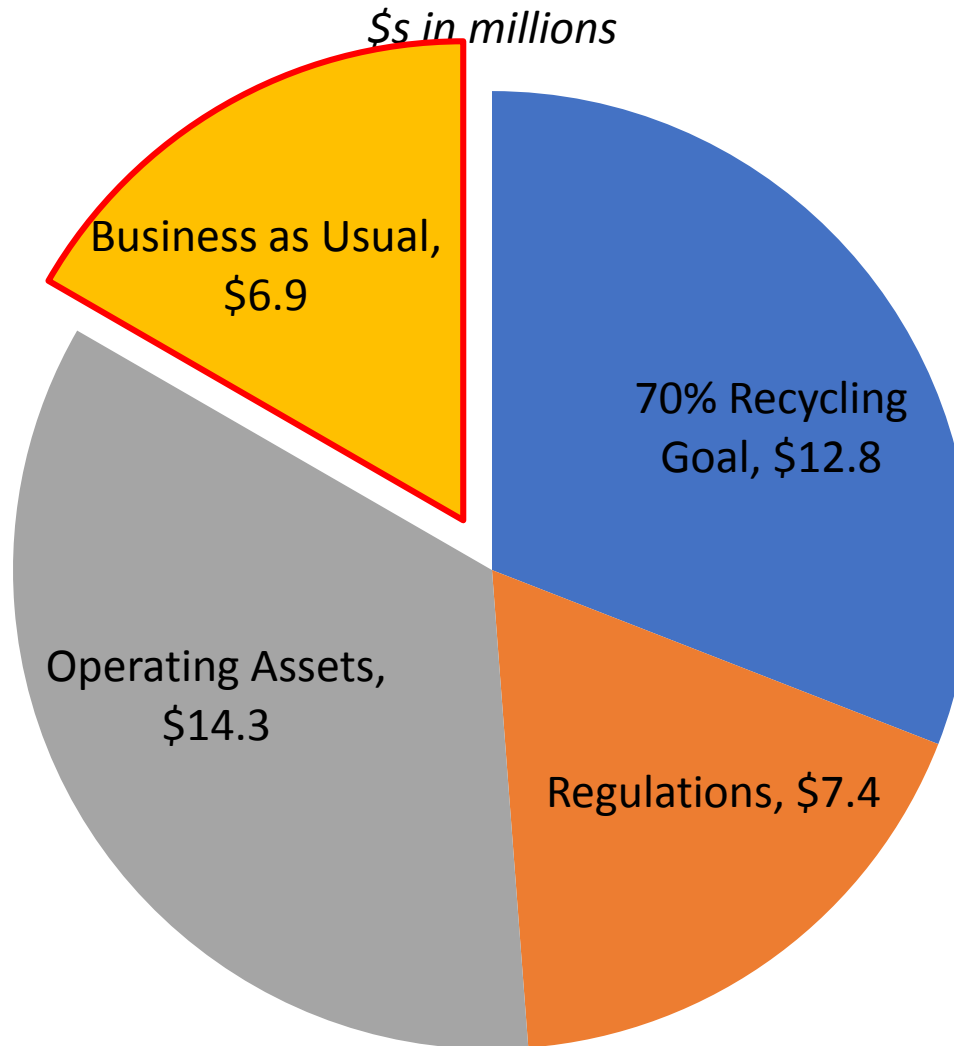
O&M Adjustments Details : \$14.3M O&M Operating Assets continued

- \$1.6M New south operations complex facility costs
- \$0.6M South Park and Broadview monitoring
- \$2.3M City Financial System enhancements
- \$0.3M South Transfer Station Phase 2 operational costs



O&M Adjustments: Focus on Business as Usual

2018-2023 O&M Baseline Adjustments = \$41.4M



O&M Adjustments Details : \$7M Business as Usual

- \$0.7M Transfer station recycling and reuse payments
- \$0.9M 1 Landfill operations position
- \$1.1M Tolt DBO contract above inflation
- \$2.2M IT maintenance costs



Tolt treatment facility

O&M Adjustments Details : \$7M Business as Usual continued

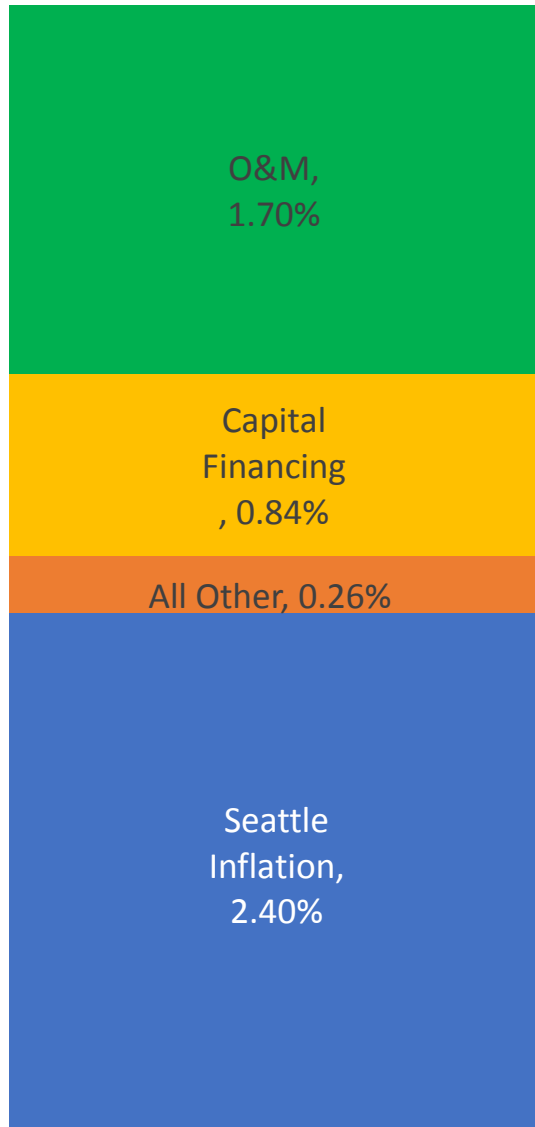
- Position conversions and reallocations 2015-2020 Action Plans
 - E-Learning
 - Materials consolidation
 - Tool room management
 - Asset hierarchy
 - Greenhouse inventory

O&M Adjustments Details : \$7M Business as Usual continued

- Position conversions and reallocations new items includes the following:
 - CIP support communications and project services
 - Environmental Justice Social Equity
 - Administrative and strategic support
 - Mechanical engineer

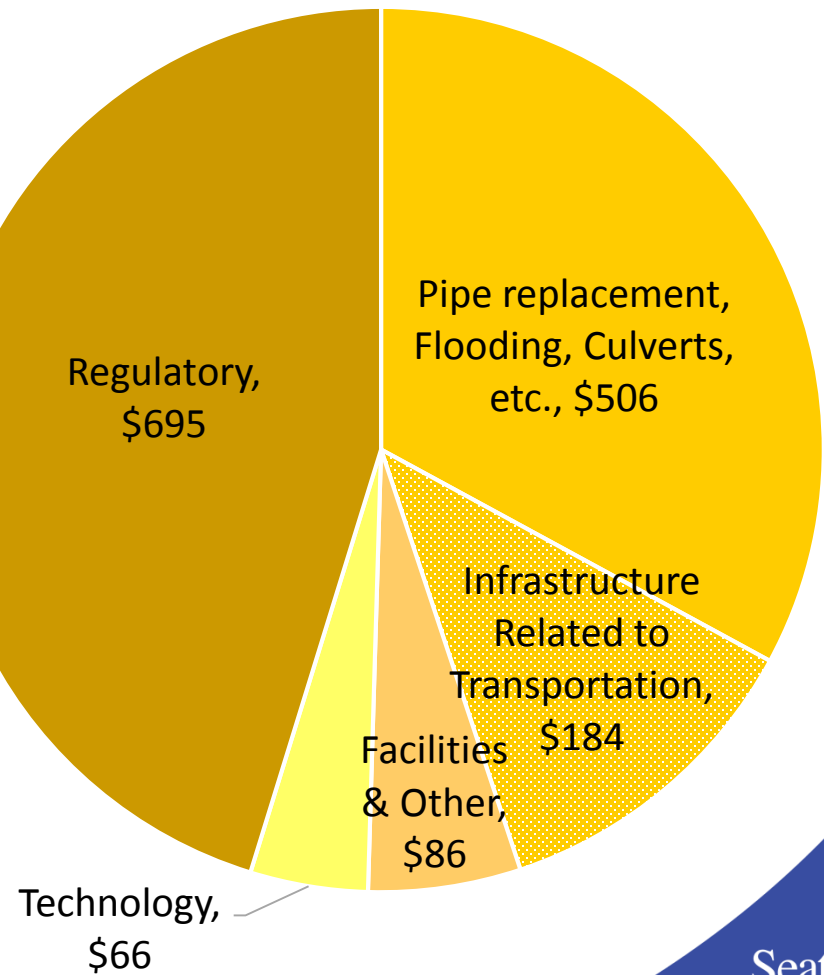
Baseline Rates Overview

Baseline = 5.2%



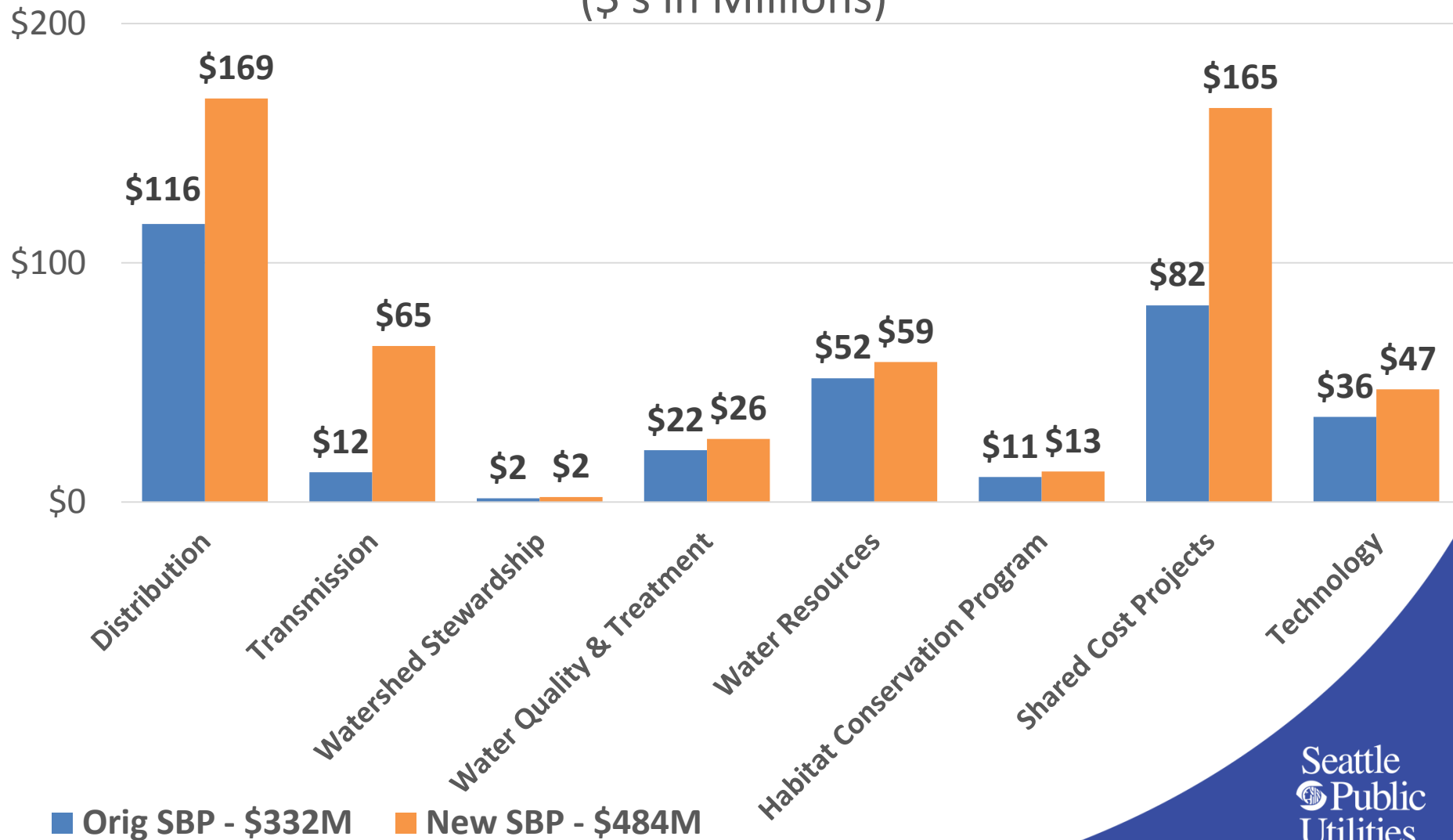
2018-2023 Baseline CIP = \$1.5B

\$s in millions



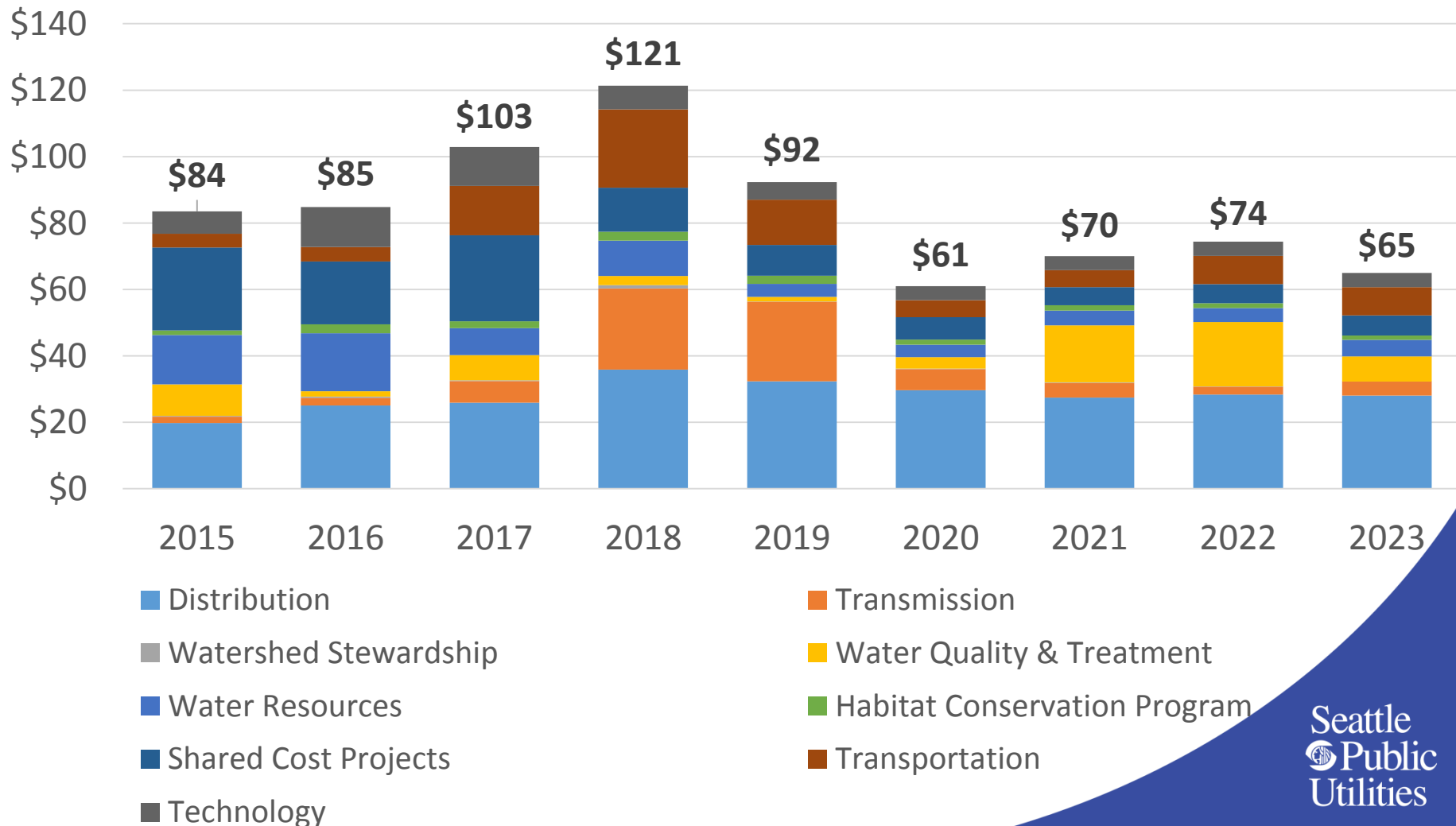
Baseline CIP: Water 2015-2020

6-Year 2015-2020 SBP Comparison
(\$'s in Millions)



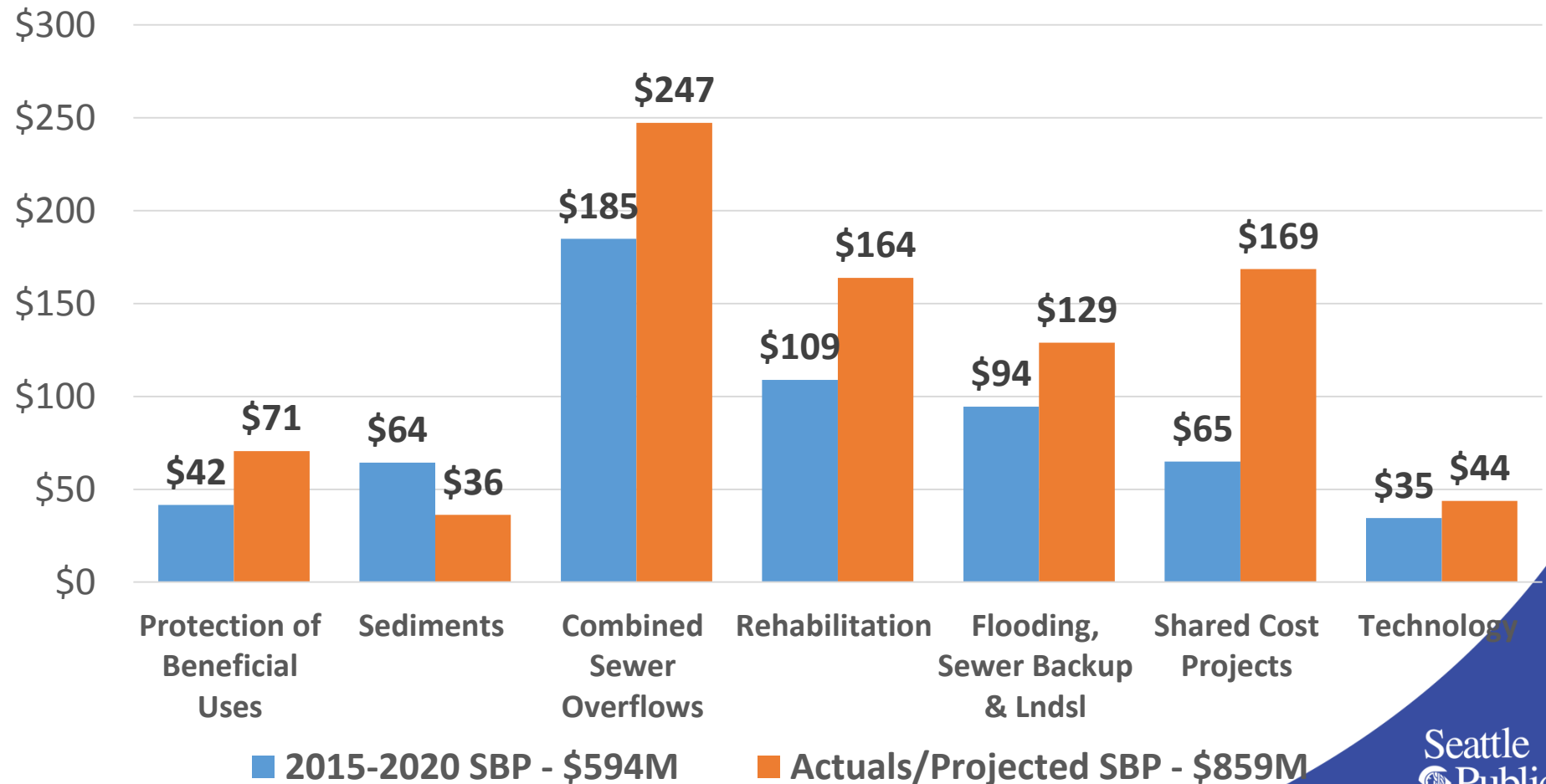
Baseline CIP: Water 2015-2023

2015-2023 Actual/Projected SBP by BCL
(\$'s in Millions)



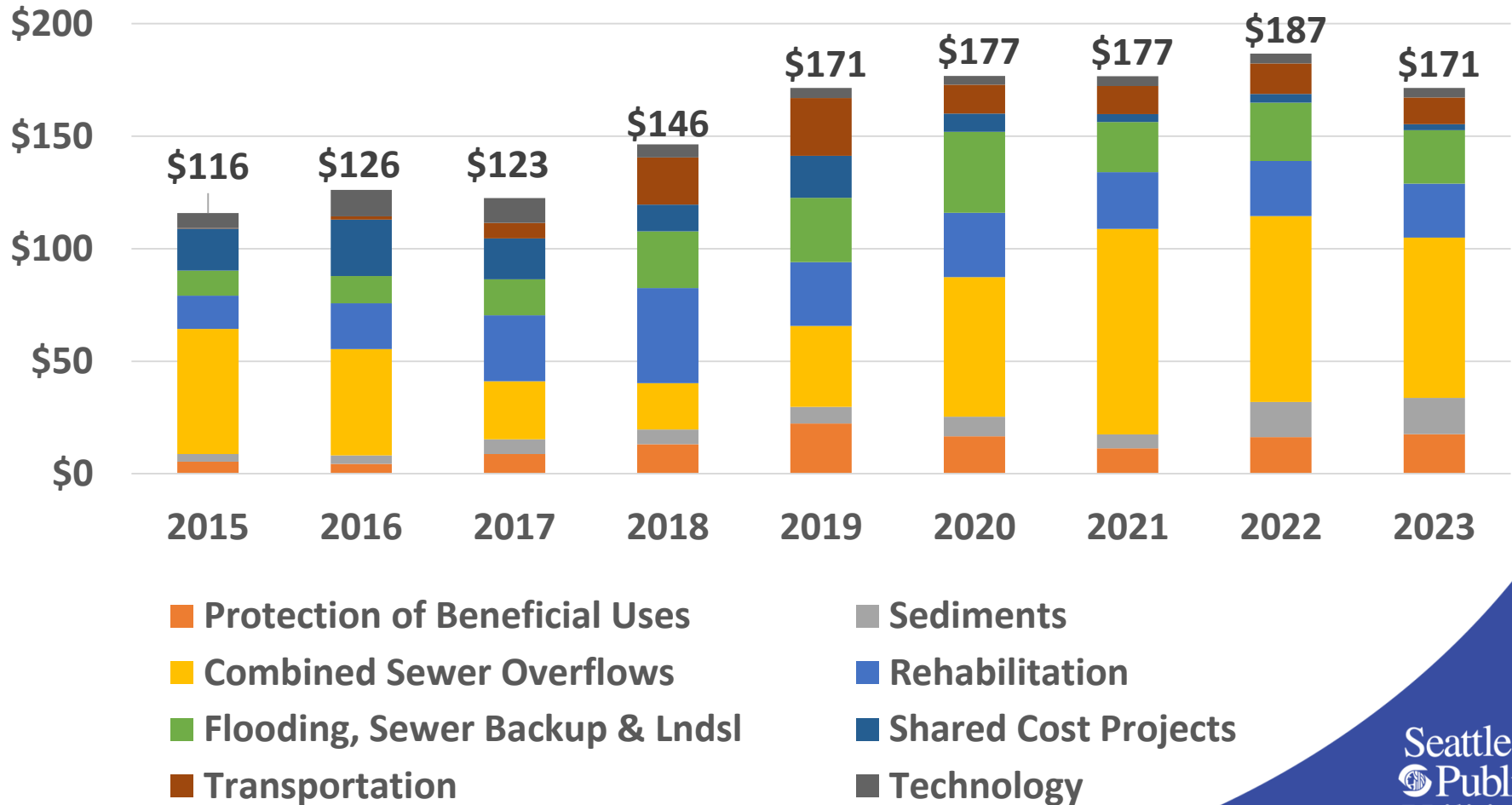
Baseline CIP: Drainage & Wastewater 2015-2020

2015-2020 SBP Comparison (\$'s in Millions)



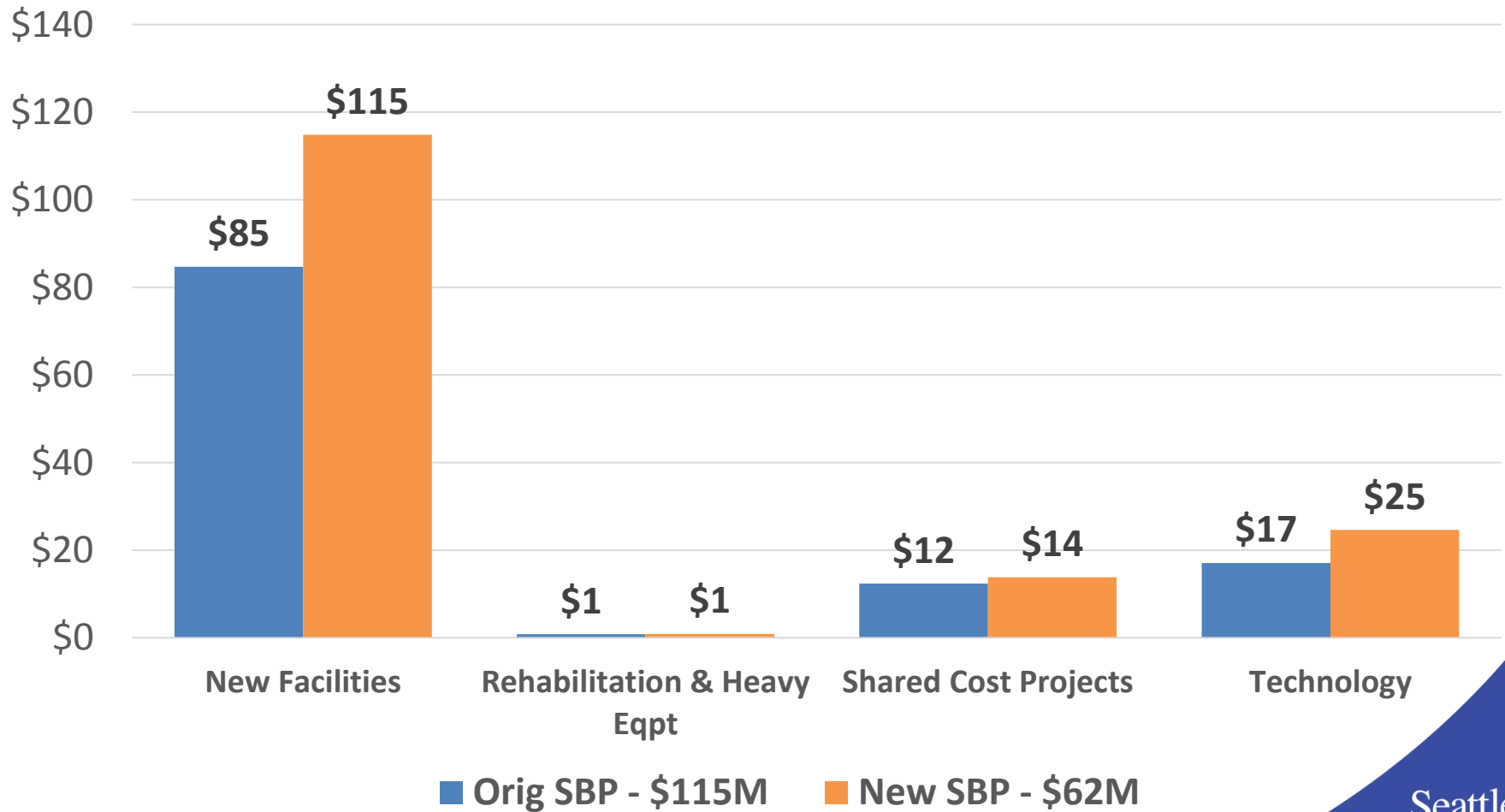
Baseline CIP: Drainage & Wastewater 2015-2023

Actual/Projected SBP by BCL
(\$'s in Millions)



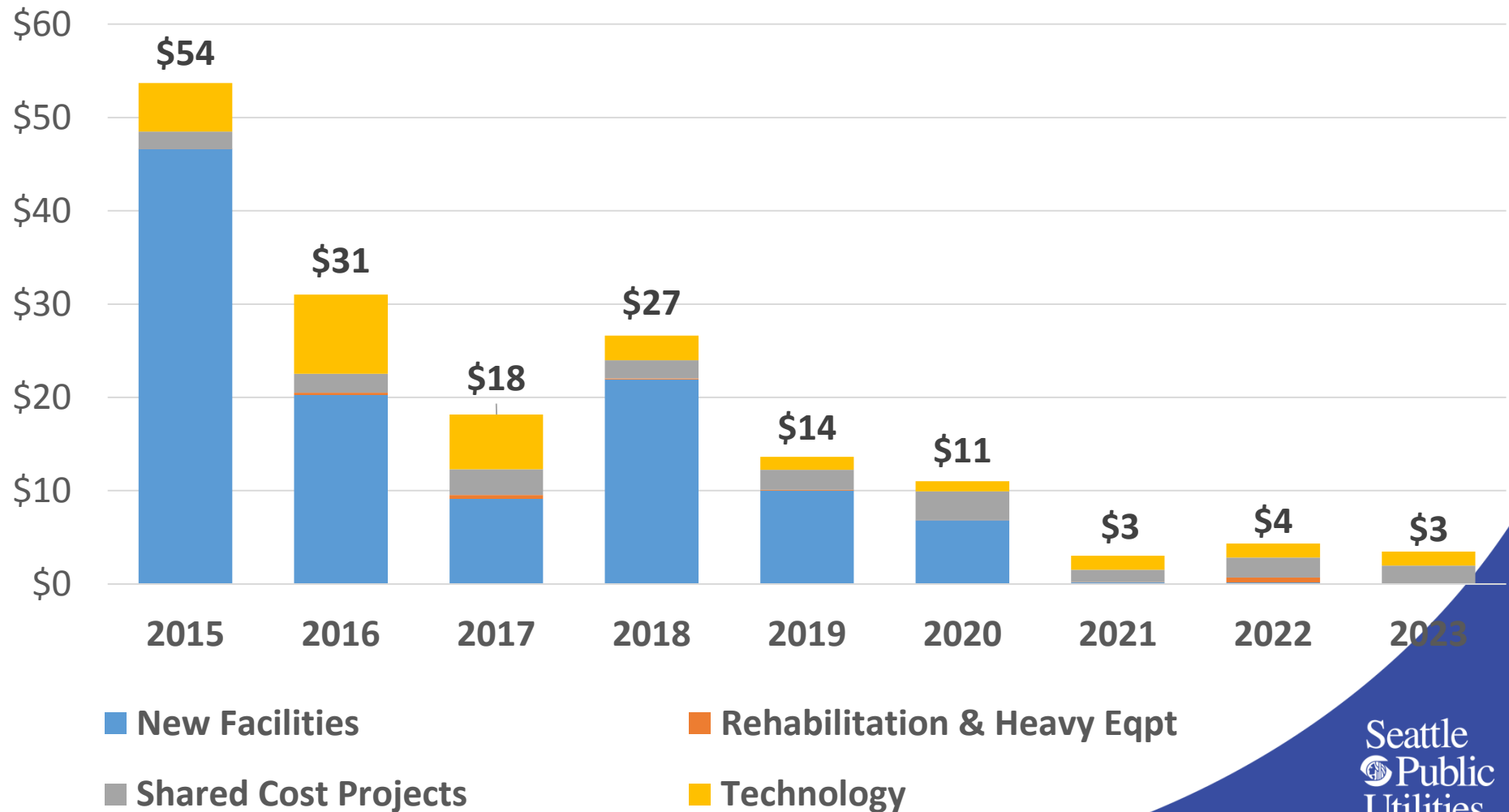
Baseline CIP: Solid Waste 2015-2020

6-Year 2015-2020 SBP Comparison
(\$'s in Millions)



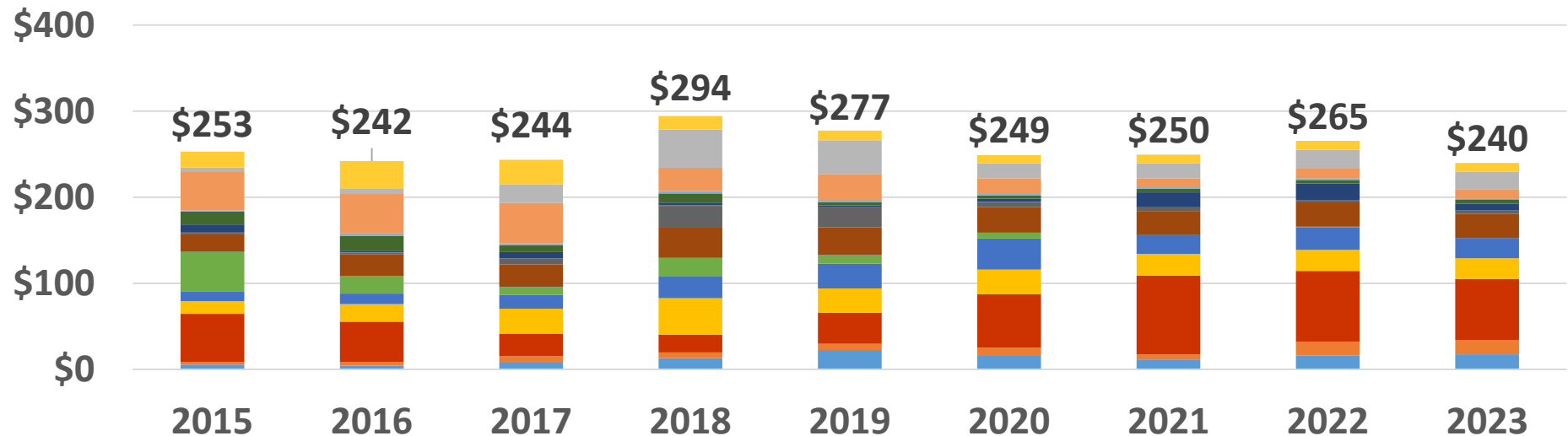
Baseline CIP: Solid Waste 2015-2023

2015-2023 Actual/Projected SBP by BCL
(\$'s in Millions)



Baseline CIP: 2015-2023

Actual/Projected SBP by BCL All BCLs and Funds
(\$'s in Millions)



- | | | |
|-------------------------------|--------------------------------|--------------------------|
| Protection of Beneficial Uses | Sediments | Combined Sewer Overflows |
| Rehabilitation | Flooding, Sewer Backup & Lndsl | New Facilities |
| Rehabilitation & Heavy Eqpt | Distribution | Transmission |
| Watershed Stewardship | Water Quality & Treatment | Water Resources |
| Habitat Conservation Program | Shared Cost Projects | Transportation |
| Technology | | |

Next:

- February 22nd
 - O&M Baseline details
 - Action Plan details
 - Financial Assumptions, if time permits
- March
 - Detail on reduction options

QUESTIONS?

